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ABSTRACT

This booklet discusses past and anticipated legislative activities in school finance, court actions, and research issues. It is divided into three major sections. The first covers the major school finance events of 1976 for selected states, the anticipated major events of 1977, and court actions. The second section covers the dominant issues that are shaping school finance policy concerns: (1) educational finance reform; (2) the role of income in public school finance; (3) categorical aid versus general school aid; (4) cost-of-education differentials among school districts; (5) the impact of school finance structures on minority and low-income students; (6) public education and changing demographic, economic, and political patterns; (7) the federal role in education finance; (8) collective bargaining; (9) school finance and state/local tax policy; and (10) state analytic capabilities. The third section consists of brief summaries of school finance issues in each of the 50 states. The appendix contains a glossary of school finance and tax terms. (MM)

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SCHOOL FINANCE REFORM IN THE STATES, 1976-1977:

An Overview of Legislative Actions, Judicial Decisions and Public Policy Research

U S DEPARTMENT OF HEALTH, EDUCATION & WELFARE
NATIONAL INSTITUTE OF EDUCATION

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Report No. F76-7

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FOREWORD

This publication is one of a series of school finance policy studies that the National Institute of Education (NIE/DHEW) is supporting at the ECS Education Finance Center. It draws upon the center's technical assistance activities with state legislatures and governors, as well as its demonstrated knowledge in this important field. NIE's sponsorship of this work is based on our conviction that the major burden for school finance reform now falls on the nation's legislators and governors and that "goal oriented" research of this kind will lead to a more informed and productive debate on the subject of school finance reform.

The emergence of this key role for state legislators and governors is the product of a series of important and far reaching court decisions. Beginning with the Serrano decision in California, a number of state courts have directed state legislators and governors to reconstruct the ways in which education resources are raised and distributed. In light of this state focus, it is particularly appropriate that ECS undertake research of this kind.

We at NIE hope this publication will serve the needs of legislators, governors, state and local education officials and interested citizens and thereby assist in the development and implementation or more equitable and effective systems of school finance.

Denis P. Doyle
Chief, School Finance and Organization
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INTRODUCTION

The 1970s have been one of the most active periods of fundamental school finance reform during the 20th century. Catalyzed by a series of court cases in which state school finance structures were found to be unconstitutional and driven by state legislatures committed to providing equal educational opportunity for all children, over 20 states enacted basic changes in their funding schemes for public elementary and secondary schools between 1970 and 1976. These reforms sought to remove local school district property wealth as a determinant of education spending, to reduce expenditure per pupil disparities among school districts, to provide appropriate state aid for children with special needs and to reduce local property taxes.

During 1976, except for New Jersey's passage of an income tax that funded its 1975 school finance law, no major school finance reform laws were passed. Faced with a recession in the national economy and commensurately limited revenues at the state and local level, state legislatures were reluctant to enact education finance reforms, which tend to be costly. Nevertheless, numerous school finance activities occurred on a number of fronts in 1976 and it is anticipated that 1977 will produce a number of important changes in the education finance mechanisms of a variety of states. In addition, 1977 may be a year in which a number of new issues in education finance will be debated in state legislatures.

This booklet discusses past and anticipated legislative activities in school finance, court actions and research issues and is divided into three major sections. The first section covers the major school finance events of 1976 for selected states, the anticipated major events of 1977 and court actions. The second section covers the dominant issues that are now shaping school finance policy concerns. The third section consists of brief summaries of school finance issues and activities in all 50 states. The appendix contains a glossary of school finance and tax terms.

I. EVENTS IN SCHOOL FINANCE: 1976 AND 1977

The period from 1970 to 1975 produced fundamental school finance reform in 20 states.[1] During that time, the most popular way to reform a state's aid system was to implement a guaranteed yield or power-equalizing type of formula under which the state guaranteed a certain dollar yield per pupil for each level of local tax effort. Colorado, Connecticut, Illinois, Kansas, Michigan, New Jersey, Ohio and Wisconsin are examples of states whose new finance structures included a type of guaranteed yield equalization formula. Other states — for example, Minnesota, Montana, Utah and New Mexico — adopted high foundation-level programs. Florida and Maine enacted two-tiered equalization aid programs that, at the first step, guaranteed a foundation level of expenditure per pupil with a minimum required local effort and, at the second step, guaranteed an equal yield per pupil per unit of tax effort for those districts deciding to tax above the minimum required tax rate. In addition to those provisions, Maine, Montana and Utah also "recaptured" locally raised revenues above the guaranteed yields from their very wealthiest school districts.

The new aid programs greatly increased the state role in supporting public education, from an average of 39 percent to an estimated average of 51 percent for 18 of the reform states. Local property tax relief occurred in nearly all of the reform states with property tax reductions on average exceeding 10 percent in Colorado, Florida and Wisconsin. Cost-based pupil-weighting programs were developed in a number of states and categorical programs were expanded in other states to provide supplemental assistance for students with special educational needs. Lastly, expenditure controls, budget restrictions, tax limits and state aid caps were enacted in numerous states in attempts to control future increases in education expenditures.

1976

The major successful event in school finance reform during 1976 occurred in **New Jersey.** New Jersey had been under pressure from the 1973 *Robinson v. Cahill* state supreme court decision, which found the state's education finance structure in violation of a constitutional requirement that the state provide a "thorough and

[1]See, for example, Lucile Musmanno and Alan C. Stauffer, *Major Changes in School Finance: Statehouse Scorecard* (Denver, Colo.: Education Commission of the States, 1974) and John J. Callahan and William H. Wilken, eds., *School Finance Reform: A Legislators' Handbook* (Washington, D. C.: National Conference of State Legislatures, 1976).

efficient" public school system. The legislature enacted a new aid program in 1975, but, because no school district would have any state aid taken away, the 1975 reform required substantial increases in state funds for full funding. Without a state income tax, the state simply had no means for raising the needed revenues. Between the first state supreme court ruling in April 1973, and 1976, the legislature had been unsuccessful in its attempts to enact a state income tax. In July 1976, the state supreme court closed all public schools until the legislature fully funded an acceptable school aid program. With the court forcing the issue, a two-year graduated income tax was passed in mid-July and the schools were reopened. The new income tax, 2 percent of incomes under $20,000 and 2.5 percent of incomes over $20,000, is expected to raise about $375 million for the school aid formula and $250 million for property tax relief.

Even with the new formula fully funded, observers of the New Jersey scene feel that the new program may not meet state constitutional requirements. The new formula is not expected to reduce expenditure per pupil disparities between the lowest and the highest spending districts; it maintains a hold harmless provision and minimum aid provisions. Suits against the new program may be filed in late 1977 if the analysis of the fiscal data for the 1976-77 school year indicates that the 1975 reform program does not substantially eliminate the inequities on which the original litigation was based.

In other states, reforms enacted in previous years continued to be phased in. **Connecticut** increased its state aid in the second year of its new guaranteed tax base program, but state aid increases were limited to 7.3 percent above the flat grant of $250 per student. At that low funding level, the guaranteed tax base (GTB) provides an additional flat grant of $18.25 per student in most districts. **Ohio,** also in its second year of reform, increased state appropriations for the new formula, but increases in aid to a given district still are limited to 26 percent of the difference between the previous year's aid and entitlements under the new formula. **Iowa** continued to phase in its 1971 reform pushing the state share to over 50 percent for 1976-77 school year.

Two other states, South Carolina and South Dakota, attempted to enact basic school finance reforms during 1976 but failed to do so by slim margins. With technical assistance from the National Conference of State Legislatures (NCSL), numerous groups in **South Carolina,** including the legislature, the governor's office, the Urban Coalition and a broad-based citizen's coalition formed by an education project of the State League of Women Voters, had been working toward changes in the school finance structure for over three years. An extensive study of school finance inequities documented below-minimal expenditure levels in many rural areas as well as very low levels of local property taxation. However, property assessment, with most property assessed at the state level, was found to be fairly equitable. The reform bill would have revised the foundation plan by

increasing the foundation guarantee and adding a weighted pupil system with a minimum required tax effort that would increase local property taxes. The bill did not pass in 1976, but it will be reintroduced during the 1977 session; passage is expected.

South Dakota's school finance reform attempt in 1976 was the outcome of a study by an interim legislative committee. The South Dakota school finance system, with one of the lowest proportions of state government support for public schools in the nation, was found to have severe property wealth-related per pupil expenditure disparities. The proposed reform was a two-tiered equalization program: a high-level foundation program, $775 per pupil, and a guaranteed tax base for those districts deciding to spend more than the foundation level. The GTB was set at the property wealth per pupil of the school district at the 75th percentile. The reform program also included pupil weightings for special education and students in the first two grades. The school finance package, however, was tied to a tax reform package that included a new state income tax that was needed, as in New Jersey, to provide the funding both for the school finance reform and a property tax rollback. Primarily, it was opposition to the income tax that caused the defeat of the combined reform bill. However, South Dakota did increase from $10,000 to $11,250 the classroom unit support for its current formula.

There were minor school funding changes passed or attempted in numerous other states. For example, **Illinois** passed a bill that modified its resource equalizer formula by increasing the guaranteed assessed valuation from $64, 615 to $66,300 in elementary districts, and from $42,000 to $43,000 in K-12 districts. **Kentucky** moved back to a classroom-unit formula that guarantees teacher salary support according to a statewide salary schedule, from $8,313 to $11,363 per classroom of 27 pupils, plus an additional $2,189 per classroom unit for other current expenses. **New Mexico** passed a bill that changed the pupil-weighting factors in its equalization formula from 1.5 to 1.3 for bilingual education and to a uniform 1.25 for grades 7-12. **Colorado** passed a bill that redefined its methods of determining the assessed value of property and required all assessing jurisdictions to increase valuations to between 22 and 24 percent of market value. **Washington** passed a bill to change the nature of the required local property tax rate under its foundation program from a local to a state tax. **California** increased its foundation-support level from $909 to $1,012 per elementary pupil and from $1,094 to $1,198 per high school pupil. **Indiana** also raised its foundation-support level by $65 per pupil to $755. Louisiana, Maine, Minnesota, Montana, Nevada, New Mexico, North Dakota, Oklahoma, Utah, Virginia and Washington are other states that raised foundation-program expenditure levels. Michigan and New Jersey increased the guaranteed yield portions of their formulas. Most of these changes only marginally affected reforms that already had been enacted. Only the states mentioned in the preceding paragraphs passed or attempted to pass fundamental changes in their basic funding structures.

1977

Although 1976 was a sparse year for education finance changes, numerous school-funding studies conducted during 1976, together with the recent court decision in California and an imminent court decision in Connecticut, suggest that 1977 may be an active year.

The major school finance court action in 1976 was the December 31 decision of the **California** Supreme Court in the *Serrano* case, which upheld the trial court's finding that the system of school finance was in violation of the state constitution's equal protection clause. After a series of unsuccessful challenges to financing arrangements in other state courts, this important decision by the influential California Supreme Court is expected to have national repercussions. The court gave the California Legislature until 1980 to establish a funding structure that eliminates the relationship between educational opportunity and local school district wealth.

At the present time there is considerable expenditure equity within the California school finance system. Over 80 percent of the students attend schools that spend within $200 per pupil of the statewide average; it is predicted that within two more years, over 90 percent of the students could be in school districts spending within that margin. In addition, the state has, through a uniform tax, totally equalized the teacher retirement program and the school lunch program.

However, the current system does have flaws that may cause increasing disparities among school districts. First, no equalization aid is provided above the foundation level. While local referenda for spending above current levels have been defeated in the past few years, the current trend in California, as well as across the nation, is for increasing numbers of such referenda to pass. Unless the foundation program is expanded to include a guaranteed yield program, wealth-related expenditure disparities will creep into the system as the voter-approved extra expenditures become a larger proportion of the total program.

Second, there is property taxpayer inequity in the current school finance structure with tax rates varying substantially among districts. Thus, taxpayers make different efforts in raising similar funds for education. With the rapidly increasing values of residential property, especially in concert with the slower increases in the value of commercial and industrial property, the property tax inequities may loom as a large obstacle to reform in the near future.

Third, except for the categorical programs mentioned above, the wide variety of categorical programs in the California system remain almost completely unequalized, although there is movement on more than one front to push reform of the categorical programs onto the state's school finance reform agenda. Finally, the fact that neither

minority nor low-income students are concentrated in low property wealth school districts means that an overall reform that is equitable to these groups may be difficult to design. In short, as California in 1977 moves to tackle reform of its complicated school funding system, it will need to come to grips with a wide range of issues that also may emerge in school finance debates in other states.

Shortly after the most recent *Serrano* decision, a lower court in **Washington** ruled in a case brought by the Seattle school district that Washington's school finance structure was in violation of the state's constitutional mandate to provide an "ample" education for all school children, since it deferred to local choice via voter-approved special levies. Following a two-year-old state supreme court decision upholding the Washington school finance structure, this decision is rekindling school finance reform activity in that state, both through the courts and in the legislature. Also in the aftermath of *Serrano*, litigation activities began, for example, in Arkansas, Idaho, Missouri and South Dakota.

Connecticut is the only state in the country now awaiting a state supreme court school finance decision. In December 1974, a district court in the *Horton* case found the flat-grant school aid system to be unconstitutional on equal protection grounds. Partially in response to that decision, the legislature enacted a new school aid formula in early 1975. The new formula, a guaranteed tax base program that measures school district wealth by an assessed valuation per capita figure modified by the ratio of the median family income of the school district to the median family income of the state, received very little new funding. Connecticut, like South Dakota and New Jersey, did not have an income tax and, even with a sales tax at a very high level, did not have sufficient state funds to finance a major school finance reform program. If the supreme court upholds the *Horton* decision, the struggle in Connecticut probably will center more on the way in which the state raises revenues than the way it distributes them in a school aid formula.

New York also may enact changes in school finance during 1977. Currently, the vast majority of the state's 705 school districts are off the formula because of a variety of hold harmless clauses that have been enacted during the past few years. Of course, the major obstacle to reform in New York is the financial crisis that has gripped the state as well as New York City for the last three years. In order to balance its budget this year, the state will have to reduce spending overall and probably will cut back on school aid. At this time the challenge to New York may well be how to design an equitable mechanism for reducing state aid for public schools as well as for putting a rein on the cost increases in public education at the local level. Complicating this process will be New York City; on a property wealth per pupil basis the city appears wealthy but is, irrespective of any wealth measure, in severe financial straits and can ill afford to lose state education aid dollars. Finally, the trial in the *Levittown* court case is

coming to an end and may produce, sometime in 1977, a lower court decision overthrowing the entire funding structure. In the *Levittown* case many poor suburban districts claim a state constitutional violation because of property wealth-related expenditure disparities; five of the state's largest cities have intervened claiming the current education aid formula disadvantages urban areas. As with California, New York is a state to watch because of the variety of school finance issues that must be solved if the system is to be made rational, equitable and affordable.

Texas enacted school finance changes during 1975 and, at the same time, initiated a $5 million two-year study to revalue all property during the biennium. The 1975 law replaced the old economic index, which was used to measure school district wealth, with assessed valuation. Cortroversy over the 1975 assessed valuations precipitated the two-year study, which has just been completed, but controversy abounds over the new valuations as well. In addition, an interim legislative committee has approved a plan to establish a single appraisal office for each county, replacing the several offices that currently certify widely varying assessed value figures for the same sets of property.

With a sizable budget surplus again, school finance reform will be a top agenda item for the 1977 Texas Legislature. One recently suggested proposal is for the state to assume 90 percent of the cost of the state's current foundation program. Because state support in wealthy districts is below the 90-percent level, the result of that proposal is to direct state aid increases into predominately wealthy school districts. Although it is difficult to predict exactly what Texas will enact, important education finance changes should be debated by the 1977 legislature.

Missouri will be attempting to enact the school finance reform recommendations that emerged from the latest Governor's Conference on Education. Over the years, Missouri has developed a tradition of having periodic citizen conferences, convened by the governor, on important education issues. In preparation for the conference, citizen committees study various education policy issues and make recommendations for change. These recommendations are then debated and voted on by a conference of the state citizenry (700 in 1976) just prior to the legislative session. The 1968 governor's conference produced Missouri's school finance reform of 1969 and the 1976 conference has sent a long list of school finance reform recommendations to the 1977 legislature, including vast changes in the administration of the property tax, especially the assessment process.

An ECS-conducted study for the Educational Finance Committee of the Governor's Conference showed that the current school finance system has produced a consistent relationship between per pupil property wealth and per pupil expenditures. The recommended

reform is a two-tiered proposal, similar to that proposed in South Dakota: a basic foundation program with a guaranteed tax base for those districts deciding to spend above the foundation level. With federal funds from Section 842 of the Education Amendments of 1974, further study of an income factor and refinement of district-by-district cost-of-education indices will be completed in early 1977 for possible inclusion in the school finance changes that may be enacted.

South Dakota also utilized federal Section 842 funds to further its school finance reform efforts. A task force of the state board of education has completed a major study of both school finance and state/local tax policy. The school finance study was an updating of the work done by the legislature during 1975. The recommended school finance changes are very similar to those proposed last year. A major focus of the 1976 study was on tax policy, specifically the elasticity of the current state/local tax structure, the distribution of the tax burden and the net effects of enacting a state income tax to be used for both property tax relief and school-funding changes. The board sent a series of recommended changes to the legislature.

The November elections, however, produced legislative majorities in both the house and senate that may be opposed to the enactment of a state income tax. A serious drought that will cause school-funding problems at the local level together with continued unrest over the low state role in supporting public elementary and secondary schools and state support for school finance reform by many of the newly elected legislators may produce important school-funding changes for this state during 1977.

Tennessee has a school aid formula that virtually has been untouched for years. With the help of state funds and a National Institute of Education (NIE) cost-sharing award granted through the NCSL in 1976, Tennessee conducted its first major study of school finance in many years. The reform package suggested by that study includes a high-level foundation equalization aid program with pupil weightings for special education and the replacement of an old economic index with assessed valuation of property as the measure of school district wealth. The proposed reforms have strong legislative backing and an excellent chance of being passed.

There also will be major school finance activity in **Colorado** where the 1973 reform officially expires in 1977 and must be renewed and/or changed. As in many other states in the West, the assessment of property is as much the focus of attention as the particular structure of school financing. During the 1976 session the legislature passed bills that set the state in the direction of making assessments more equitable across and within counties and slowly requiring counties to bring assessments up to the 30-percent legal level. On the school finance side, the state currently uses a guaranteed yield type of state aid formula. To help control expenditure increases, the legislature enacted a set of expenditure-increase limitations in 1973. The maxi-

mum allowable increase was seven percent on a total budget basis unless higher increases were approved by a state budget review board or a local referendum. With double digit inflation and changing student enrollments, there is growing demand to modify the expenditure control mechanism. Most members of the newly elected legislative leadership place school finance as one of the top-priority items for the 1977 session.

Of course, there will be school finance-related legislation in nearly all of the 50 states. The above states have been selected as most promising for major reform attempts. Many other states, moreover, will become involved in comprehensive studies of school financing funded by federal 842 dollars. A short summary of anticipated school finance activities in all 50 states is presented in Section III.

The Courts

As discussed earlier, the major legal event in school finance in 1976 was the decision of the California Supreme Court that found the California system of school financing in violation of the state constitution's equal protection clause. This definitive court decision joins the April 1973 state supreme court decision in New Jersey as the response of two state supreme courts to the property wealth-related, expenditure per pupil disparities existing in public systems of school financing.

But not all state court decisions have followed the leads of New Jersey and California. The Oregon Supreme Court in 1976 found the Oregon school finance structure not in violation of the state constitution. However, in language reminiscent of the U.S. Supreme Court in the *Rodriguez* decision, the Oregon court stated that the constitutionality of the system does not mean that it is an equitable system. Supreme courts in Washington and Idaho in the past few years also have found their state school funding schemes, both of which are characterized by property wealth-related expenditure disparities, not in violation of the states' constitutions. The state supreme court in Connecticut has the lower district court's *Horton* decision on appeal, and it is anticipated that a decision on that case will be handed down later this year.[2]

The aftermath of the most recent *Serrano* decision has already begun, however. A lower court in Washington has renewed school finance litigation in that state by ruling that the existence of local special school levies is not compatible with the state's requirement to provide an "ample" education. A fiscal neutrality school finance suit was filed in Arkansas in January 1977. The Missouri Education Association also filed a suit in January. Background work for other court suits is

[2]For a summary of school finance litigation as of January 1976, see *Update on Statewide School Finance Cases* (Washington, D. C.: Lawyer's Committee for Civil Rights Under Law, January 1976).

being conducted in Colorado, Idaho and South Dakota. In short, 1977 promises to be an active year for education finance litigation.

These new legal activities are utilizing four different legal strategies in basic challenges to school finance structures. The first is the standard fiscal neutrality strategy, used in the *Serrano* decision in California, in which it is argued that expenditure per pupil disparities that are related to local school district property wealth are in violation of the state constitution. This strategy will be used in the *Thomas v. Stewart* case in Georgia brought by the Whitfield County school district and in Massachusetts in the case of *Timilty v. Sargent* brought by Boston plaintiffs. It is also the primary legal strategy being used by the poor suburban school districts in the *Levittown v. Nyquist* case in New York State. If a case is filed in South Dakota, a possible means for speeding along reform momentum in that state, this strategy will be one basis on which that case would be brought.

A second type of legal strategy centers on state constitutional phrases such as "thorough and efficient," "general and uniform" or "equal education." Cases brought on this legal basis have not only a fiscal neutrality component but also a concern with outputs of the schooling process. The *Robinson* case in New Jersey hinged primarily on New Jersey's "thorough and efficient" clause. The *Pauley v. Kelly* suit in West Virginia is based on that state's "thorough and efficient" clause. And if the South Dakota suit is brought, a second component of the legal basis will be the state's "general and uniform" education clause.

A third legal strategy that is now emerging, which in many respects was the original intent of the first lawyers involved in school finance litigation, focuses on expenditure per pupil disparities per se, irrespective of their relationships to property wealth. The argument is simply that unequal expenditures per pupil deny students in low-spending districts equal education opportunity and, thus, equal protection under the law. This strategy was at least a partial strategy used in the *Serrano* case in California. It also might form the major foundation of cases that may be brought during 1977 in Colorado and Missouri.

The fourth type of legal strategy might be termed a push for a higher level of education adequacy. This strategy was put into use in 1976 in two cases brought by central city school districts: Seattle in Washington and Cincinnati in Ohio. In Washington, as indicated above, local school districts must pass a special school levy each year for any portion of the school budget that exceeds the foundation level of expenditure guaranteed by the state aid program. Seattle, which derives a substantial percentage of its school budget from a special levy, was not able to pass its special levy last year. The city brought suit challenging the state's delegation of responsibility to provide the constitutionally required "ample" education to local voter choice. Implicit in the argument was the evaluation of the foundation level of

expenditures as less than ample. As noted, the court found in Seattle's favor. Similarly, Cincinnati has been unable to gain voter approval to increase its local school levy and in late 1976 filed suit also challenging, under Ohio's "thorough and efficient" clause, the state's delegation to local voter choice of a state responsibility to provide a thorough and efficient education.

Cases directly arguing for special consideration of central city school district's education overburden problems are those in New York, filed by five large cities, including New York City, as interveners in the *Levittown* case, and in Missouri filed by the St. Louis Board of Education. The New York case is undoubtedly the most significant. The large cities are asserting that the current New York state equalization aid formula treats city school districts irrationally because it does not compensate them for concentrations of students needing special and compensatory education services, for higher costs in providing all kinds of education services or for the strain on the cities' budgets caused by high demands for noneducation services, especially welfare. The final outcome of the cases brought by central city districts is of critical importance to those who are concerned that school finance reform treat fairly school districts in all types of jurisdictions — city, suburban or rural — and not contribute to further decline of the older core cities.

Another set of potential legal actions in school finance hinges on the outcome of the underfunding debate regarding many Black school districts in numerous Southern states. Underfunding is being researched by the Lawyer's Committee. If there is sufficient evidence linking underfunding with racial minorities, suits based on racial discrimination might be filed.

There are numerous other court cases that directly or indirectly affect school financing. The *Boothbay v. Longley* case in Maine that challenges the state's recapture clause is still awaiting trial. In Wisconsin, the state supreme court in December declared the Wisconsin recapture clause unconstitutional. The *Knowles v. Kansas* case that attacks the use of assessment-sales ratios in adjusting reported assessed valuations for the purpose of allocating state aid is on appeal to the state supreme court.

Finally, the numerous special education court cases as well as the *Lau v. Nichols* type of cases requiring extra services for the linguistically different must be watched for their financial implications.

While the legal challenges to school finance have had rough going in state courts, the recent decision by the California Supreme Court in the *Serrano* case surely will boost education finance litigation.

As the above has indicated, there is still a variety of activities on the legal front in school finance and the legal strategies being used are expanding in number. Although nearly all school finance reform

advocates would prefer that state legislators and governors take the lead in changing inequitable school-funding mechanisms, they also see use of the courts as a necessary reform strategy in those many states where politically induced reform efforts are lagging or have not even been initiated.

II. CONCEPTUAL AND POLICY ISSUES IN SCHOOL FINANCE REFORM

The issues related to public school finance are rapidly becoming more numerous and more complicated — substantively, politically and fiscally. Education finance reform no longer is focused just on the relationship between current operating expenditures and local school district property wealth.

The following are likely developments during the latter half of the 1970s. Measures of school district wealth will include not only total property valuations, but also the composition of the property tax base as well as the income level within the school district. Wealth-related expenditure disparities will continue to be litigated, but the adequacy of the education programs will be scrutinized more thoroughly. Unacceptably low school-funding levels will be investigated at least in a number of Southern states. The impact of school finance structures on minority and economically disadvantaged students will be given more attention. Methodologies for accounting for differential costs among local school districts providing similar education services will be developed. The emerging frictions between categorical aids and general aid and potentially disequalizing aspects of categorical aid allocation mechanisms will be included directly on the school finance policy analysis agenda.

Social and economic changes in society at large are creating new school finance issues. Declining school enrollments, increasing non-educational demands for the state tax dollar and skepticism over spiraling education costs will be debated and researched more thoroughly. The federal role in education policy will be analyzed more comprehensively and the current state and federal roles, both administratively and fiscally, could begin to change importantly. The panorama of state and local tax issues related to education finance, which for too long virtually have been ignored in school finance activities, will come closer to front stage and will be integrated into more comprehensive school finance and tax reform packages. The remainder of the section discusses these and other issues in more depth.

Impacts of Education Finance Reform

To date there has been little analysis of the effects of recently enacted school-funding changes. The legislative handbook available from NCSL is probably the most comprehensive evaluation of school finance reform that exists at this time.[3] But increasingly, state

[3]John J. Callahan and William H. Wilken, eds., *School Finance Reform: A Legislators' Handbook.*

legislatures are asking school finance analysts what impacts — both fiscal and educational — reasonably can be expected from school-funding changes. The question is clearly legitimate and over the next few years substantive answers based on sound analysis must be developed.

In fact, one of the most important items on the school finance analysts' agenda should be additional evaluation of the reforms of the 1970s to determine whether reform goals, in fact, were achieved by the changes that were enacted. Recognizing the importance of this issue, the NIE recently awarded the Rand Corporation a contract to study in depth the effects of school finance reform in five states. Results of that study, to be available by the 1978 legislative session, should provide useful information to state policymakers.

One issue that will be investigated in the Rand study, as well as other studies, is the efficacy of various kinds of school-funding structures in reducing per pupil expenditure disparities. A common hypothesis is that power-equalizing programs (guaranteed yield or guaranteed tax base programs) are not as effective in reducing expenditure per pupil gaps as are high-level foundation programs or school aid programs with strict expenditure or tax limits. In fact, preliminary evidence in the NCSL study noted above indicated that expenditure disparities actually may have increased in states adopting variations of guaranteed yield or tax base types of programs.

Another issue related to the impact of school finance reforms is the governance effects of the reforms including the degree to which local control is curtailed as the state assumes a larger role in financing schools. Past research has indicated that there is no correlation between the level of state aid and local control.[4] In fact, when Florida passed its recent school-funding reform it dramatically decentralized the management of education down to the school level in some districts. Research now being conducted at the Stanford Research Institute under sponsorship of the NIE will begin to provide additional answers regarding the governance changes that have accompanied or not accompanied recently enacted school finance reforms.

A third issue related to the impacts of school finance reforms covers the responses of local school districts to significantly increased state aid allocations. Numerous subtopics are contained in this issue. What types of school districts increase their tax rates and to what extent under guaranteed tax base or guaranteed yield programs? What are

[4]Susan H. Fuhrman, *Local Control: Fear or Fantasy* (Newark, N.J.: The New Jersey Education Reform Project, April 1974); and Betsy Levin, Thomas Muller, William J. Scanlon and Michael Cohen, *Public School Finance: Present Disparities and Fiscal Alternatives*, a report to the President's Commission on School Finance (Washington, D.C.: The Urban Institute, July 1972).

the characteristics of school districts that use the aid increases to increase education programs or to decrease the property tax burden? Can a methodology be developed for predicting the mix of program expansion and property tax relief? These kinds of issues have received very little attention but will be included on the research agendas of a number of organizations in 1977.[5]

Perhaps the most frequently asked questions by state policy makers relate to how school finance dollars have been used by school districts and what effect they have had. On the former questions, a few studies have been conducted and all have reached the same conclusion: where school finance dollars have increased the school district's budget (rather than being used for tax relief) they have been used for the most part to increase the breadth of education programs. Only a small portion of school finance reform dollars have been used to increase teacher salary schedules, according to these studies.[6] Clearly, however, more work is needed on this topic.

The effect of school finance reform on student outcomes, while now being scrutinized by many persons, has not been sufficiently researched. At this time, even the possibility of conducting such a study is impossible in most states because student output measures are not required by state law and local school districts have not produced comparable output measures on their own. Efforts must be initiated to determine the effects of school finance reform on pupils. Especially in concert with developing new legal strategies (discussed above) that are focused on education adequacy, this issue is assuming greater importance. Moreover, education finance reform is only one means for assuring education adequacy for all public school children in this country. Thus, the linkages between funding structures and

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[5]For examples of research in this area see: W. Norton Grubb and Stephen Michelson, *States and Schools* (Lexington, Mass.: D.C. Heath and Company, 1974); John H. Bowman, "Tax Exportability, Intergovernmental Aid and School Finance Reform," *National Tax Journal*, XXVII (June 1974), pp. 163-174; Martin Feldstein, "Wealth Neutrality and Local Choice in Public Education," *American Economic Review*, 65 (March 1975), pp.75-89; Helen Ladd, "Local Education Expenditures, Fiscal Capacity and the Composition of the Property Tax Base," *National Tax Journal*, XXVII (June 1975), pp. 145-158; Helen Ladd, "Statewide Taxation of Commercial and Industrial Property for Education," *National Tax Journal*, XXIX (June 1976), pp. 143-154; and Jerry Wade, "The Role of Property Tax Base Composition in School Finance Decisions and Reform" (Unpublished Ph.D. dissertation, Syracuse University, August 1974).

[6]See Allan Odden, "How are Schools Using 'New' Money?" *Compact*, X, No. 4 (Autumn 1976); Arthur Alexander, *Salaries and School Expenditures* (Santa Monica, Calif.: Rand Corporation, December 1974); Stephen Barro and Stephan Carroll, *Budget Allocation by School Districts: An Analysis of Spending for Teachers and Other Resources* (Santa Monica, Calif.: Rand Corporation, December 1975); Michael Kirst, "What Happens at the Local Level After State School Finance Reform?" in *State and Local Government*, ed. Alan K. Campbell and Roy W. Bahl (New York, N.Y.: The Free Press, 1976), pp. 136-158.

pupil outcomes must be delineated more clearly. Financial equity and education adequacy are no longer two separate concerns but are inextricably linked; the importance of the nature of that linkage should not be neglected as school finance reform continues through the 1970s.[7]

The Role of Income in Public School Finance

Most states measure the local wealth of school districts on the basis of the assessed valuation of property. But the income levels of the district voters also play an important role in school district fiscal behavior. A combination of income and property provides a more comprehensive measure of school district wealth.

The importance of income in public school finance is now receiving more recognition in many states. Five states — Connecticut, Kansas, Maryland, Rhode Island and Virginia — already use income factors in their equalization plans. Colorado, Iowa, Missouri, Nebraska and Wisconsin are examples of states that now compile income data by school district through their state income tax programs for possible use in their aid programs. California, Maine, Ohio, Pennsylvania and Vermont are additional examples of states giving serious attention to incorporating income, in some form, in their equalization mechanisms.[8] In focusing on general equalization goals in school finance, income will be an important element in addition to property wealth in defining wealth neutrality in education funding structures.

Numerous factors explain increasing interest in the role of income in school finance. At the local level, for example, values of residential property, owned primarily by middle-income families, are rising faster than nonresidential property as well as income. Thus, property taxes are increasing faster than income for middle-income homeowners, and the initial or apparent property tax burden is being shifted gradually from the business sector to the homeowner sector in some states. In many rural areas, farmers are witnessing increases in the market value of farmland that, in many instances, exceed its productivity value. With stable or marginally rising incomes, these farmers are experiencing a real financial squeeze. Also, large central cities that appear "wealthy" in terms of per pupil property wealth have large concentrations of low-income families and feel the need to examine the role of income in school financing.

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[7]For additional discussion of this important issue, see Arthur E. Wise, "Minimum Educational Adequacy: Beyond School Finance Reform," *Journal of Education Finance*, 1 (Spring 1976), pp. 468-483.

[8]Income as well as the composition of the property tax base are both important determinants of the local "economic price" of education services and the effects are usually researched together.

In addition to the above factors that are creating a demand for a renewed look at the role of income in school financing, there is empirical evidence from economic and school finance research that documents the importance of income. First, studies of the determinants of education expenditures by districts and states nearly always have found income to be a significant explanatory variable[9]. Second, in nearly every instance where it has been analyzed, income has been found to be correlated with school tax rates.[10] This relationship is especially important in states that have guaranteed tax base (GTB) or guaranteed yield equalization programs. GTB programs allocate aid, in part, on the basis of school tax rates; because of the positive relationship between income and tax rates, such programs may allocate higher amounts of aid to high-income districts, thus inadvertently producing income-related inequities in the system. Third, in some cases income also has been positively correlated with district expenditures.[11] Fourth, economic research has shown that the effective economic price of education services is lower in higher-income districts; thus, such districts are able to purchase greater amounts of education services, other things being equal, than lower-income districts.[12]

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[9]For reviews of these studies, see G. Alan Hickrod, "Local Demand for Education: A Critique of School Finance Research Circa 1959-69," *Review of Education Research* (Winter 1971), pp. 35-49; and Arthur Denzau, "An Empirical Survey of Studies of Public School Financing," *National Tax Journal*, XXVIII (June 1975), pp. 241-249.

[10]See Donna Shalala, Mary F. Williams, Allan Odden, et al., *Equalizing Educational Opportunity in Connecticut: Report to the Connecticut Commission to Study School Finance and Equal Educational Opportunity* (New York, N.Y.: Teachers College, Columbia University, 1975); Allan Odden, *Special Levies and the Property Tax in Washington School Finance* (Denver, Colo.: Education Commission of the State, 1975); Allan Odden, Phillip E. Vincent, et al., *Analysis of the School Finance and Tax Structure of Missouri: Background Research of the Educational Finance Committee of the Governor's Conference on Education* (Denver, Colo.: Education Commission of the States, 1976); G. Alan Hickrod, et al., *The 1973 Reform of the Illinois General Purpose Grant-in-Aid: An Evaluation after Three Years* (Normal, Ill.: Center for the Study of Educational Finance, November 1976); Bruce Gensemer, *Personal Income Variations Among Ohio School Districts and Their Implications for the Guaranteed-Yield Formula* (Gambier, Ohio: Kenyon College, 1976); and Thomas Yang and Ramesh Chaudari, *A Study of the Relationship Between Selected Socioeconomic Variables and Local Tax Effort to Support Public Schools in Illinois* (Normal, Ill.: Center for the Study of Educational Finance, 1976).

[11]Donna Shalala, Mary F. Williams, Allan Odden, et al., *Equalizing Educational Opportunity in Connecticut;* and Thomas Yang and Ramesh Chaudari, *A Study of the Relationship Between Selected Socioeconomic Variables and Local Tax Effort to Support Public Schools in Illinois.*

[12]See W. Norton Grubb and Stephen Michelson, *States and Schools;* Martin Feldstein, "Wealth Neutrality and Local Choice in Public Education; Helen Ladd, "Local Education Expenditures, Fiscal Capacity and the Composition of the Property Tax Base"; and Helen Ladd, "Statewide Taxation of Commercial and Industrial Property for Education."

In short, both research and changing economic circumstances will be thrusting income into school finance policy debates in the coming years. Applied policy research is needed to describe more precisely the nature of income in affecting school district fiscal decisions. And once that relationship is determined, the ways of including income in a school aid formula to insure income as well as property wealth equalization will have to be developed.

Of course, the use of income in school equalization formulas will alter current patterns of the distribution of state aid.[13] In general, income factors redistribute aid from higher-income suburban school districts to lower-income rural areas and to lower-income central cities. However, it should be emphasized that not all central cities have low average incomes, and those that do not may not be eligible for increases in state aid if an income factor is included in the equalization formula. Obviously, formulas that allocate aid on the basis of both property value and income will especially target aid in school districts with low-income as well as low-property wealth measures.

Categorical Aid Versus General School Aid

To date, most school finance reforms have focused on the general equalization aid programs. However, equalization goals in school finance include not only wealth equalization but also pupil-need equalization. The latter usually requires a restructuring of the categorical aid programs. Some states, such as Florida, New Mexico and Utah, have included changes in categorical aid structures along with changes in general aid structures in their school finance reforms. In many other states, such as California, Kansas, South Carolina, South Dakota and Tennessee, the rationale for equalizing numerous categorical aids is being discussed much more frequently. And in some states, Massachusetts being a prime example, the competition between categorical aids and general aid has reached center stage as the costs of comprehensive special education programs have mounted. The rapid growth in the funding of categorical programs and the link between categorical and general aid programs is one more issue that will complicate school finance reform activities in the coming years.

There are three basic factors in the issue of categorical versus general aid. The first concerns equalization goals. The question that is being asked frequently by many state policy makers is why categorical aid is not allocated via some equalization formula as is general aid. The question is an apt one. Except for those instances where the state funds fully (in fact as well as in theory) the excess costs associated with a categorical program, such as vocational education, special education, compensatory education or bilingual education, poor school districts have more difficulty in raising their share than do

[13]See, for example, Allan Odden, "Alternative Measures of School District Wealth," *Journal of Education Finance*, 2 (Winter 1977), pp. 356-379.

wealthy school districts. This fact is true for operational programs, such as those just mentioned, as well as capital construction needs and debt retirement. There is no substantive reason for not equalizing the structure of categorical aids. In fact, recent evidence suggests that wealth-related inequities can creep into the categorical aid allocation process when an equalization formula is not used.[14] This has occurred especially in many states that use a partial excess cost reimbursement schedule for special education state aid.

Some states, most notably Florida, New Mexico and Utah, have begun to equalize the allocation of numerous categorical programs by using a pupil-weighting system, wherein the costs of education services for various types of students are given a weight relative to an average student and then, via an equalization formula, state aid is allocated on the basis of the number of weighted students in a school district.[15] Pupil-weighting systems constitute a major advance in the structuring of categorical programs but suffer from the lack of a substantive and objective way to determine the different weights. Nevertheless, they do represent one direction states can choose to begin allocating categorical aid in part on the basis of relative school district wealth.[16]

The second factor associated with categorical aid is the increasing financial burden such programs are placing on state and local budgets. Ten years ago categorical programs constituted a small portion of school spending at both state and local levels. But the rapid implementation of comprehensive special education programs, programs for the linguistically different student and other high-cost special programs have greatly increased the percent of the total budget consumed by categorical programs, especially special education.[17]

The third factor, really a corollary of the second, is the emerging competition at both the state and local levels between categorical and general aid dollars. For example, in many states special education aid has the first call on state public education appropriations. In Massa-

[14]See, for example, Donna Shalala, Mary F. Williams, Allan Odden, et al., *Equalizing Educational Opportunity in Connecticut;* and William H. Wilken and David Porter, *State Aid for Special Education: Who Benefits?* (Washington, D.C.; National Conference of State Legislatures, October 1976).

[15]See, for example, Jack Leppert, Larry Huxel, Walter Garms and Heber Fuller, "Pupil Weighting Formulas in School Finance Reform," in *School Finance Reform: A Legislators' Handbook*, ed. John J. Callahan and William H. Wilkin, pp. 12-26.

[16]For some literature on pupil weighting programs, see Richard Rossmiller, "Resource Configuration and Costs in Educational Programs for Exceptional Children," *Planning to Finance Education*, ed. Roe L. Johns, Kern Alexander and K. Forbus Jordan (Gainsville, Fla.: National Education Finance Project, 1971); and William McLure, "Pupil Weightings," *Journal of Education Finance*, 2 (Summer 1976), pp. 72-82.

[17]See William H. Wilken and David Porter, *State Aid for Special Education: Who Benefits?*, Chapter 1.

chusetts, this has decreased absolutely as well as relatively the number of state dollars for the general aid formula.[18] At the local level a similar kind of competition is developing. In fact, the rapid and quite visible expansion of special education, a service receiving almost universal support in the past, has produced negative reactions among many parents of "normal" children who feel the nonspecial student is being neglected. Whatever the truth of this point of view, there is an emerging competition between categorical and general aid in both state and local education budgets. This issue will be raised with more frequency in the future and should receive research attention.

While there may be some negative reaction to the rapid escalation of services for the special education student, the proper implementation of special education services may be very beneficial to minority students in public schools, particularly in Southern states. State compensatory education programs, while adopted by numerous states outside the South, never caught on at the state level in the South. The emerging phenomenon of underfunding, discussed below, may further disadvantage many Southern minority students. But special education programs, now mandated by many courts, have the potential for funneling extra education services to minority students in Southern states. While the practice in the past has been to label disproportionate numbers of minority students as mentally retarded or emotionally disturbed, and while this practice still exists to a great degree in rural areas, the inclusion of programs for the learning disabled and the slow learner has funnelled special education services to minority students with identifiable educational problems. This phenomenon should be monitored closely to assure a nondiscriminatory pattern in the delivery of special education services. But the potential of expanded special education programs as the politically viable vehicle for expansion of needed additional education services for many minority school children should not be underestimated.

Cost-of-Education Differentials Among School Districts

It is well known that the cost of providing education services differs among regions and school districts in a state. Put another way, a given level of education services may cost a certain amount in an average school district but it will cost more in some school districts and less in others. The development of cost-of-education indices among local school districts has been an elusive goal in the school finance policy area, but recent economic research has advanced greatly the degree to which states may now take these different levels of cost into effect in new state aid formulas. In short, equalization of education price differentials now can be accomplished to a large degree in new state school aid programs.

[18]See William H. Wilken and David Porter, *State Aid for Special Education: Who Benefits?*, Chapter 3.

It must be emphasized that there is a critical distinction to be made between education expenditures and education costs. Differences in education expenditures are caused by two factors: differences in the amount or quality of education services demanded and differences in the costs of providing those services. Differences in the amount of education services purchased are, in general, within the control of local school decision makers. Differences in the costs of education services, however, are essentially beyond the control of local decision makers. Holding quality constant by statistical techniques, it is the factors involved in producing differences in education costs that are used to calculate cost-of-education indices.

Differences in education costs are caused by three major factors: 1) socio-demographic characteristics of the school district such as geographic location, number of pupils and ethnic composition of the student body; 2) pupil-need characteristics such as the percent of students needing special, compensatory or other high-cost education services; and 3) legal and time constraints affecting school districts with declining enrollments such as teacher tenure laws, staff lay-off procedures and short-run excess school building capacity. To calculate cost-of-education indices, the effects of these kinds of factors, which are outside the control of local school decision makers, must be isolated and, holding the quality or level of school services constant across all school districts, used to determine an index of education costs for each individual school district. In most instances, cost indices include only the first uncontrollable factor; the other two factors are analyzed by other means. But a cost index could incorporate the extra costs due to all three factors.

Frey,[19] Brazer[20] and Grubb[21] conducted the pioneering economic research work in the area of education cost indices. Recently, ECS conducted a cost-of-education index study for the Missouri Governor's Conference on Education and developed regional as well as district-by-district cost-of-education indices.[22] ECS will be refining its work in Missouri over the next year. NIE recently has contracted with Killalea Associates to do cost-of-education index work as well.

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[19]Donald E. Frey, *The Determinants of Teachers' Salaries in New Jersey* (Washington, D. C.: The National Urban Coalition, May 1976).

[20]Harvey Brazer, "Adjusting for Differences Among School Districts in the Cost of Education Inputs: A Feasibility Report," *Selected Papers in School Finance, 1974* (Washington, D.C.: U.S. Department of Health, Education and Welfare, Office of Education, 1975).

[21]W. Norton Grubb, "Identifying Teacher Supply Functions and Constructing Cost Indices: Methodological Explorations with California Unified School Districts," *Selected Papers in School Finance, 1975* (Washington, D. C.: U.S. Department of Health, Education and Welfare, Office of Education, 1976).

[22]Jay G. Chambers, Allan Odden and Phillip E. Vincent, *Cost-of-Education Indices Among School Districts: An Application to the State of Missouri* (Denver, Colo.: Education Commission of the States, December 1976).

Although the methodology used to develop cost-of-education indices appears complicated to the layperson, it relies on basic economic theory and utilizes standard economic techniques. It rapidly is becoming possible for states to develop cost-of-education indices in order to compensate school districts for differences in education costs as well as differences in school district wealth. The indices also can be used for basic school finance analysis to separate those elements of expenditure per pupil disparities caused by cost differences from those elements caused by differences in local wealth or local choice.

The development and use of cost indices are not, however, without political implications. Costs of a given level of education services are usually higher in urban than in rural areas. Within urban areas, the costs in central cities are generally above those in suburban school districts. Thus, given a certain amount of state aid, the use of a cost index funnels relatively more aid into the urban areas, especially central city school districts, and relatively less aid into the rural areas.[23] However, an income factor generally will have just the opposite effect. Thus, it may be that the use of cost-of-education indices will have to be implemented simultaneously with the use of an income factor in a distributional formula to produce an equalization of cost as well as equalization of property and income wealth.

The Impact of School Finance Structures on Minority and Low-Income Students

The thrust of recent school funding changes has been toward eliminating the relationship between property wealth and expenditures per pupil. This goal, however, often times is somewhat incompatible with attempts to focus needed increased education services on low-income and minority students who, in many states, are not concentrated in low-property wealth school districts. While the impact of school-funding structures on minority and low-income students has been raised by a small group of persons across the country over the past few years, its importance is far greater than the attention it has been given. The specifics of the issue among the states involve a wide variety of problems that merit increased research and analysis.

The basic concern is how current or reformed school finance structures impact school districts with concentrations of minority and low-income children. This problem has received some attention but often is ignored in most school finance analyses.[24] With NIE funding, however, the issue will be studied in depth over the next year in six states that have enacted recent school finance reforms — California,

[23]See Jay G. Chambers, Allan Odden and Phillip E. Vincent, *Cost-of-Education Indices Among School Districts.*

[24]The National Urban Coalition has funded school finance reform projects that focus their efforts on minority issues in school finance in four states — Colorado, California, Texas and New Jersey. See *Finance Facts* (June 1976) for a further description of these projects.

Colorado, Michigan, New Jersey, New Mexico and Texas.[25]

One finding that is likely to emerge from the NIE study is the differences in the impact of school finance structures on urban minorities as compared with rural minorities, as well as on urban poor as compared with the rural poor. The fiscal and demographic characteristics of urban and rural school districts often are markedly different. Thus, school finance policies focused on minority and low-income children may have to be designed on a two-tiered basis in order to benefit minority and low-income students in both urban and rural settings.

One minority group that has been almost ignored thus far in school finance policies is the American Indian. Although many Indians attend schools supported entirely by the federal government through the Bureau of Indian Affairs, there is mounting debate over the financing and governance of these schools as well as heightened sensitivity to state and local policies that affect Indian students in state and locally supported public schools. In those states that have no state aid program for capital construction, for example, public schools on Indian reservation land face a nearly impossible task of constructing adequate school buildings because they have virtually no local property tax base to guarantee capital construction bonds. Another issue concerns the potential dismantling of the federal Johnson-O'Malley program and the lack of state programs for replacing those funds. Arizona and New Mexico particularly are affected by concentrations of Indians, but many other states in the Midwest and West must begin to research more thoroughly the impact on Indian students of their school finance policies.[26]

A third issue, relating primarily to Black students, concerns what has been termed the "underfunding" phenomenon in some Southern states. What appears to be happening is that as white students withdraw from the local public school system, which then becomes heavily minority, the local community refuses to levy tax rates sufficient to support adequate services in the predominantly Black public schools. This problem presently is being researched by various groups, including the Lawyer's Committee on Civil Rights Under Law. The issue will be given close scrutiny in the states of Alabama, Louisiana, Mississippi, North Carolina, South Carolina and Virginia over the next few years and could lead to a new round of school finance litigation.

Finally, the emerging numbers of programs, court cases and state and federal laws affecting bilingual education must be watched and

[25]Robert Brischetto of the Intercultural Development Research Association in San Antonio, Texas, will be the principal investigator of this study.

[26]See, for example, M. David Alexander and Richard G. Salmar, "Financing Indian Education," *Journal of Education Finance*, 2 (Summer 1976), pp. 33-45.

analyzed carefully. These programs, although ignored for too long, require significant increases in funding and hence, raise new financial considerations at both the state and local levels.

In addition, the extra educational needs of Spanish-surnamed students may be different from those of Black students. The fiscal and demographic characteristics of school districts with concentrations of Spanish-surnamed students often are different from those school districts with concentrations of Black students. These differences will have to be scrutinized closely in order to insure that revised school-funding policies benefit all minority populations.

In short, not only may there be differential impacts between some of the standard forms of school finance reform and fiscal policies benefiting minority and low-income students, but also there may be a need to develop differential policies to benefit all minority groups and low-income students in different geographical locations. The impact of school-funding mechanisms on minority and low-income students will continue to be raised by many interested persons, and the issues involved will become additional components of school finance reform activities in the future.

Public Education and Changing Demographic, Economic and Political Patterns

Too often prior to the 1970s, school finance was viewed in isolation from the larger public finance sector in which it was imbedded. Although the perspective of school finance has broadened in the past few years (now drawing on economists, political scientists, sociologists, and lawyers as well as educators), dramatic shifts in the national demographic and economic scene are producing new strains on support for public schools. New school finance policy makers must take these broader social movements into account in formulating future education finance policies.

The most obvious of these social changes is the decline in the birth rate and the accompanying decline in public school enrollments. The striking fact of declining enrollments is that the issue was virtually unmentioned five years ago. Yet the decrease in the number of births that produced the drop in enrollments had taken place years prior to its manifestation. The fact that declining enrollments have made their impact in a time of spiraling education costs as well as recession in the national economy necessitates a thorough analysis of its implications for school finance.

Declining enrollments create fiscal, budgetary and managerial problems at both the state and local levels. Because state aid is based, in part, on the number of students in a school district, a loss of students can cause a significant decrease in state aid. Since school districts face time constraints in their ability to trim education costs as they lose students, the decrease in state aid often occurs before

costs can be reduced. The result is an unplanned fiscal squeeze for the local school district.

Declining enrollments also produce unanticipated administrative uncertainty in local school districts, since local administrators, for the most part, have been trained for a period of rapid increase in demand for education services and often lack the managerial and budgetary skills for decremental planning. Finally, the results of affirmative action programs, implemented quite recently, often are eroded in declining enrollment districts because teacher seniority laws, requiring a last-hired, first-fired procedure, force minorities and women out of recently acquired upper-level staff positions.

Policy research on the issues related to declining enrollments and the development of alternative policies directed at the problem are just under way. Iowa and Illinois have just completed descriptive studies of the phenomenon in their states.[27] ECS conducted a similar study of the fiscal effects of declining enrollments in four additional states — Missouri, Michigan, South Dakota and Washington.[28] Reports from additional declining enrollment studies should be available in 1977.[29]

A few state policies address problems created by declining enrollments. Most of these focus on the way pupils are counted in the aid formula. Usually the average pupil count of the previous three years or a pupil count that discounts a proportion, usually 50 percent, of the number of lost pupils is used. Minnesota, however, has implemented programs that compensate rapidly growing school districts for hiring experienced and thus high-cost teachers that have been let go in a declining enrollment district. But the characteristics of the problems created by the declining student population are far from being well known; the policy work on the issue will be a task facing numerous state policy makers over the next few years.

An aspect of declining enrollments is its impact on many of the nation's large central cities. These school districts, already wealthy when measured by assessed valuation per pupil, look even wealthier on this standard measure of wealth when the number of pupils

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[27]John J. Callahan, William H. Wilken, et al., *An Assessment of the Tax and Expenditure Equity of Iowa's School Finance System* (Washington, D.C.: National Council of State Legislatures, February 1976); and G. Alan Hickrod, et al., *Enrollment Change and Educational Personnel Change* (Normal, Ill.: Center for the Study of Educational Finance, March 1976).

[28]Allan Odden and Phillip E. Vincent, *The Fiscal Impacts of Declining Enrollments: A Study of Declining Enrollments in Four States: Missouri, Michigan, South Dakota and Washington* (Denver, Colo.: Education Commission of the States, December 1976).

[29]The NIE funded a series of studies of declining enrollments during 1976. A summary statement and annotated bibliography of these studies will be available from the NIE in the spring of 1977.

decline. The problem is that, simultaneously with this phenomenon, many of these core cities are becoming increasingly burdened by rising numbers of students with high-cost special education needs as well as a stagnant or declining total tax base. Thus, often times school finance policies can doubly disadvantage central city school districts that are experiencing declines in their public school enrollments.

Coupled with declining enrollments have been three other forces affecting political support for school finance reform: rising costs of all services, including education; a recession that has left state and local budgets leaner than expected; and apparent declines in student test scores. In addition, and perhaps even more important, is the increase in proportion of older persons in the nation's population and the higher demands for services to meet their needs, including health care, expanded old-age assistance programs and lifelong learning opportunities. These events justifiably have combined to produce demand for more education accountability and increased education productivity. In many states, legislators have responded by imposing a variety of expenditure controls, tax rate limits and state aid caps on local school districts.[30]

While some of these larger national events may have been partially misinterpreted — for example, National Assessment of Educational Progress test results show stable test scores for junior high students and *increasing* scores for elementary students[31] — the fact remains that these larger social, economic and political events are impacting heavily on the political support for education financing. As these events unfold, therefore, education finance policy makers must again broaden their policy views and formulate reasonable finance policies that will continue to receive needed political support even as shifts in national political configurations are occurring.

The Federal Role in Education Finance

Federal involvement in supporting public education in the United States peaked in the mid-60s with the passage of the Elementary and Secondary Education Act of 1965. Since that time, it has been the states that have been the pioneers in enacting new education policies. In particular, it has been state action that has produced the large number of school finance reforms during the last five years and it has been state funds that have supported the vast increase in special

[30]See, for example, Dale Cattanach, Robert Land and Lloyd Hooper, "Tax and Expenditure Controls: The Price of School Finance Reform," in *School Finance Reform: A Legislators' Handbook*, ed. John J. Callahan and William H. Wilken, pp. 60-72.

[31]National Assessment of Educational Progress, *Reading in America: A Perspective on Two Assessments* (Denver, Colo.: Education Commission of the States, October 1976).

education services.[32] Nevertheless, the federal government continues to play an important role in financing selected important education programs.

The structure of many federal aid programs for education and their expanding rules, regulations and reporting requirements are coming under mounting criticism from state-level policy makers, however. Federal impact aid under Public Law 874 provides one clear example. The objective of this program is to compensate local school districts for increases in its pupil population and expenditures that accompany the installation of a major federal facility as well as for losses in the local property tax base that may result from the exemption of federal property from local and state taxation. Over a decade ago when the impact aid program was developed and when state equalization aid programs were in their infancy, these federal objectives helped maintain equity in state/local school finance structures. But fully implemented state equalization aid programs also compensate local school districts for low property wealth per pupil. Thus, for the states that have adequate state equalization programs, federal impact aid can become a major disequalizing element in the system by constituting a "windfall gain" for some school districts. Although this issue has been partially recognized by the Congress, [33] the lag in changing the impact aid regulations and allocation mechanisms is hard to justify.[34]

Another example of the intergovernmental frictions that have emerged in overlapping state and federal aid programs is the federal compensatory education program, Title I of the Elementary and Secondary Education Act of 1965, and state programs of compensatory education. Requirements for targeting Title I funds as well as comparability requirements for schools within a school district often create situations that disqualify schools from state funds if the federal Title I funds are accepted and vice versa. In some states, the contradictory regulations can inject disequalizing elements into the total aid allocation system. While some of these unnecessary frictions have been eliminated with the publication of revised Title I regulations, numerous frictions remain unresolved.

Perhaps the most intense controversy now brewing concerns the new

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[32]William H. Wilken and David Porter, *State Aid for Special Education: Who Benefits?*

[33]Title III, Sections 304 and 305, of Public Law 93-380, the Education Amendments of 1974, amends Section 5(d)(2) of Public Law 81-874 to allow for the deduction of impact aid, under certain circumstances, in calculating state equalization aid.

[34]See John J. Callahan, William H. Wilken, et al., *Impact Aid and Basic State School Finance Programs: Can They Be Made More Compatible?* (Washington, D.C.: National Conference of State Legislatures, 1976) for a discussion of ways to integrate the objectives of federal impact aid and state equalization programs.

federal Education for All Handicapped Children Education Act, P. L. 94-142, passed by the Congress in 1975. This bill creates a right to an adequate education for all children in a state, regardless of handicap. Currently, the bill also funnels a great portion of the federal aid directly to local school districts, bypassing the state and ignoring the wealth of local school districts as well as the receipt of state funds for special education. In the numerous states that have implemented and funded comprehensive special education programs, the new federal bill threatens to undermine the adequacy as well as the equity of the state-initiated systems. Other states without fully implemented state programs are postponing state efforts until the rules, regulations and final aid allocation systems of this new federal bill are determined.

The general issue that pervades these examples is the federal government's development of education policies that are not coordinated with similar state programs. Although it may have been true in the past that federal programs were developed to address education problems ignored by the states, the prominence of the states in pushing the frontiers of education policy over the past decade requires a reevaluation of the federal process of education policy enactment. It is not an insurmountable task to coordinate the development of complementary state and federal education programs, but it will require initiative on the part of the states and recognition of viable and valid state interests on the part of the federal government. This cooperation in the creation of education policy is probably the most significant new element in federal education finance policy that may occur in the latter half of the 1970s.

In this light, national attention will be focused on the results of the states' use of federal Section 842 funds, which are now available to states for the development of state equalization aid programs for public elementary and secondary schools. Rather than enacting a federal general aid program for education, the Congress decided that at this point the most appropriate federal role with respect to general education support was to help sponsor the policy research needed to develop enhanced state equalization structures.[35] As the uses made of these funds become known over the next few years. further evidence of the efficacy of making federal funds available to state departments of education for the coordination of applied education policy research will be produced.

Collective Bargaining

Activity on collective bargaining issues has occurred mainly on the

[35]In *Financing Schools and Property Tax Relief – A State Responsibility* (Washington, D.C.: Advisory Commission on Intergovernmental Relations, January 1973), the ACIR concluded that states had the constitutional responsibility and fiscal resources to solve the problems of equalizing education finance.

political front.[36] But the financial implications of the existence of collective bargaining is an issue that merits close scrutiny. Earlier research indicated that collective bargaining has a minimal influence on education costs, specifically teacher salaries. More recent research has utilized a different methodology, with the teacher and not the district as the unit of analysis, and with intra-state regional as well as district effects. This research has shown that collective bargaining can increase teacher salary levels by up to 15 percent.[37] The interrelationships that may exist between collective bargaining laws and school finance structures is also an issue that merits attention and in 1977 will be the topic of at least preliminary investigation by Anthony Cresswell at Northwestern University. Collective bargaining and its implications for school finance policy is another major policy issue that is being raised in state legislative halls and for which answers based on substantive investigation will be needed over the next few years.

School Finance and State/Local Tax Policy

Perhaps the most ignored aspect of school finance is its relationship to state and local tax policies. Although recognition of the inextricable link between school finance policy and state/local tax mechanisms has always been acknowledged, substantive attention has been focused almost exclusively on the distribution rather than the collection side. This tend may be changing, however, if the recent school finance studies conducted by NCSL and ECS[38] and the new Vermont study[39] are any indication. All include analysis of state and local tax policies as an integral part of the overall school finance study. Finally, it seems likely that many states will utilize the federal 842 funds to conduct tax policy analysis and develop alternative state and local tax policy options as well.[40]

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[36]For a description of the collective bargaining laws for education among the states see Doris Ross, *'76 Update: Collective Bargaining in Education* (Denver, Colo.: Education Commission of the States, January 1976).

[37]See Jay G. Chambers, "The Impact of Bargaining on the Earnings of Teachers: A Report on California and Missouri," a paper presented to the U.K.-U.S. Conference on Teacher Markets, University of Chicago, December 1976.

[38]Allan Odden and Phillip E. Vincent, et al., *Analysis of the School Finance and Tax Structure of Missouri*, Chapter 4; Allan Odden and Phillip E. Vincent, *Report of the Task Force on School Finance of the South Dakota State Board of Education* (Denver, Colo.: Education Commission of the States, 1976), Chapter 3; and John Callahan and William H. Wilken, et al., *An Assessment of the Tax and Expenditure Equity of Iowa's School Finance System*, Chapter 2.

[39]The Education Policy Research Institute of the Educational Testing Service is conducting a tax and school finance analysis for the Vermont State Department of Education.

[40]Initial indications are that some states — for example, Florida, Montana, Minnesota and California — may apportion some part of their 842 funds to investigate tax issues.

One major issue on the tax side is the equity of the structure of state and local taxes, i.e., the burden by income class. At issue here is the degree of regressivity or progressivity of each state and local tax used to support public schools as well as the burden of the combined tax system used for education funding. Although most state and local tax structures are regressive overall[41] (the progressivity of a state income tax being offset by the regressivity of nearly all consumption taxes), the hottest debate in tax burden analysis concerns the commonly accepted regressivity of the property tax.[42] Some new public finance scholars are making theoretical claims of progressivity for this tax,[43] but some recent empirical research has documented the persistent regressivity of the property tax in the low-income ranges under all economic theories.[44] Although school finance structures can achieve equity on the expenditure side wholly apart from any taxpayer equity, the fairness of the burden of the tax structure supporting public schools is a legitimate issue that will be raised with increasing fervor over the next few years.

Closely aligned with the equity of a state and local tax structure for education is the elasticity or revenue-producing potential of the structure. Regressive tax structures usually are inelastic as well. That is, for every one-percent increase in personal income there is less than a one-percent increase in state or local tax revenues. More elastic revenue structures generally are more progressive.[45]

In this light, the importance of a diversified state tax structure cannot be overstated. In general, those states that utilize all major state taxes, including income as well as sales taxes, have had greater fiscal flexibility in funding education finance reforms. The debate in New Jersey centered more on the lack of a state income tax than on dis-

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[41]Donald Phares, *State-Local Tax Equity* (Lexington, Mass.: D.C. Heath and Co., 1973).

[42]For the classical discussion of the regessivity of the property tax, see Dick Netzer, *The Economics of the Property Tax* (Washington, D. C.: The Brookings Institution, 1966).

[43]See Henry Aaron, *Who Pays the Property Tax?* (Washington, D.C.: The Brookings Institution, 1975) and Peter Mieszkowski, "The Property Tax: An Excise Tax or a Profits Tax?" *Journal of Public Economics*, 1 (April 1972), pp. 73-96.

[44]Allan Odden and Phillip E. Vincent, *The Regressivity of the Property Tax: The Incidence of the Property Tax Under Alternative Assumptions of Incidence in Four States – Connecticut, Minnesota, Missouri and South Dakota* (Denver, Colo.: The Education Commission of the States, December 1976); see also Dick Netzer, "The Incidence of the Property Tax Revisited," *National Tax Journal*, XXVI (December 1973), pp. 515-36.

[45]See Allan Odden and Phillip E. Vincent, *Analysis of the School Finance and Tax Structure of Missouri*, Chapter 4; and Allan Odden and Phillip E. Vincent, *Report of the Task Force on School Finance of the South Dakota State Board of Education*, Chapter 3, for additional discussion of the interrelationship between the equity of a tax structure and the elasticity of its revenue potential.

agreements over school finance equalization goals. Similarly, the slow movements toward significant and fully funded school finance reforms in Connecticut, South Dakota and Washington are a result primarily of the lack of state income taxes and, thus, the lack of state funds to finance a reform effort.

At the local level there are numerous property tax issues that impinge on school finance reform efforts. As one looks back on the school finance reforms of the 1970s, one cannot overlook the importance of property tax relief as an important element, if not the most important element, of the reforms in many states. Arizona, Colorado, Kansas and Minnesota are just a few of the states that made property tax relief a central element of their total school finance reform packages.

While such a general property tax reduction may be a necessary political component of a successful school finance reform effort, there are policy issues imbedded in such changes that need more study. For example, the impact of uniform property tax rollbacks financed by increases in state income taxes needs to be analyzed by income class as well as by income source. In South Dakota, for instance, preliminary evidence suggests that such a reform would be a net benefit to middle-income farmers but a net loss to middle-income wage earners in urban areas.[46] Since tax relief is often one component of school finance reform, further investigation of the effects of various tax reforms needs to be conducted to insure equity on the tax reform side as well as the school finance reform side.[47]

In addition to overall property tax relief, however, there also has been interest in expansion of state-financed "circuit breaker" programs of property tax relief that funnel tax relief to low-income persons experiencing property tax overburdens.[48] Michigan, Minnestoa, Oregon, Vermont and Wisconsin are examples of states that have adopted circuit breaker programs of property tax relief that benefit all low-income persons, regardless of age. These programs are the most effective and efficient mechanisms for reducing the regressive

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[46]Allan Odden and Phillip E. Vincent, *Report of the Task Force on School Finance of the South Dakota State Board of Education*, pp. 72-74.

[47]For additional evidence of the effects of state financing of property tax reduction see William Oakland, "Incidence and Other Fiscal Impacts of State Assumption of Education Costs: Baltimore," *National Tax Journal*, XXIX (March 1976), pp. 73-85; L. Kenneth Hubbell and Gerald W. Olson, "Alternative Methods for Funding Property Tax Financial Services: Kansas City," *National Tax Journal*, XXIX (March 1976) pp. 86-94.

[48]For a summary of state-financed circuit breaker programs of property tax relief, see *Property Tax Circuit-Breakers: Current Status and Policy Issues* (Washington, D.C.: Advisory Commission on Intergovernmental Relations, February 1975).

property tax burden placed on low-income households.[49]

The assessment of property, however, is perhaps the most perplexing policy issue surrounding the property tax. Property in most states is still assessed at levels below legal or constitutional requirements and inequitable differential assessments still abound both among and within classes of property. Currently, both Massachusetts and New York State are under court mandate to bring assessments of property in all jurisdictions up to the required level of 100 percent of market value. In the West, where the state role in property tax assessment has traditionally been low, heated debates are occurring over assessments and acceptable ways to "equalize" locally reported assessed valuations for use in a state aid equalization program. Colorado, Missouri, Oklahoma and Texas are examples of such states now embroiled in assessment reform debates.

What may be the most troublesome aspect of property tax policies, especially as related to school funding, is the rising value of residential property across the country and the concomitant higher local property taxes. There are many spin-off aspects to this phenomenon. First, residential property appears to be increasing in value at a pace that exceeds that of nonresidential property. Thus, the property tax bite for homeowners is accelerating at a rate in substantial excess of that for all other property owners. Second, with improved assessment procedures, especially the use of computers in annual reassessments as is done in California, increases in assessed values of residential property can exceed even the market value increases. This is occurring in part because residential property in most states traditionally has been underassessed and dramatically improved assessment practices are eliminating this de facto form of tax shelter. In this same vein, the court-mandated increases in assessment levels in Massachusetts and New York probably will produce substantial shifts in the property tax burden from nonresidential to residential property.

In short, while extralegal administrative assessment practices have made housing investment a de facto tax shelter for middle-income families in the past, new assessment procedures, court mandates and the market for homes is now breaking up this shelter and in so doing is producing emerging resistance on the part of many middle-income families to property tax increases, most of the revenue from which goes to school funding. The point here is not to justify past practice; the point simply is that a confluence of forces seems now to be producing significant negative reactions on the part of that segment of taxpayers whose support for increased school funding is absolutely necessary. This political fact must be kept well in mind as states

[49]W. Norton Grubb and E. Gareth Hoachlander, "Optimal Circuit Breaker Schedules and Their Application in California," mimeographed (Berkeley, Calif.: University of California, September 1974). See also Mark Bendick, "Designing Circuit Breaker Property Tax Relief," *National Tax Journal*, XXVII (March 1974), pp. 19-28.

enact school funding and state/local tax changes that require increases in dollars for schools.

A final tax issue that has not been explored in the past but is a legitimate new concern is the net benefits of taxes and expenditures for schools on an income-class basis. In economic terms, this kind of analysis would indicate the income redistributive effect of the entire set of taxing and spending policies for public elementary and secondary education. As the redistributive aspects of all public financed services become of greater interest, the redistributive impact of the education sector will be a major component of such inquiry.[50]

While there are numerous other tax policies related to public school finance, the above are highlights of some of the major issues that join tax and school-funding policies and that need to be included on comprehensive school finance reform policy issue agendas.

Strengthening State Analytic Capabilities

Although much of the impetus for school finance reform in the 1970s has come from persons and institutions not formally a part of state government, insufficient attention has been given to increasing the analytic and policy development capabilities of state professional staff. This is not to say that talent and expertise does not exist among those professionals staffing legislatures or departments of education. Indeed, many states have written major reform programs with no outside assistance. Nevertheless, there is a need to devote more time and funds to enhancing state-based analytic capabilities to help states to be able to develop reform programs on their own initiatives.

One critical aspect of such analytic capabilities is the development of state computer systems for school finance simulation models. The vast majority of those states that have enacted reforms, as well as of those states that will be attempting to enact reforms during 1977, have relied heavily on school finance simulations for the development of policy alternatives as well as the final packages that have been or will be enacted. Often, these simulations have been developed by outside consultants. California, Florida and Kansas, however, are examples of states that have developed their own education finance computer simulations.

One outcome of the federal Section 842 funds should be the broadening of school finance analytic capabilities of state agency professional staff. Although the magnitude of the tasks to perform with the use of Section 842 dollars may require subcontracting in most states, one underlying objective should be the training of state staff to per-

[50]For an example of this kind of study, see William Riggin, "Incidence of Taxes and Expenditures for Public Lower Education" (Unpublished Ph.D. dissertation. Columbia University, 1975).

form the kinds of work that now must be done by outside consultants. This kind of training should include both the analytic work of characterizing and describing the school finance problem issues as well as the development of computer software programs to simulate a variety of policy alternatives that could be enacted to solve the problems.

In this vein, one of the concerns of both school finance scholars and the staff of state-based organizations like the NCSL or ECS that provide technical assistance on school finance matters should be the transfer of their knowledge and expertise to the state persons with whom they are working. If equity in school finance is to be assured over the long run, persons in the states with the prime responsibility for analyzing as well as designing and implementing the funding structure must be equipped fully with the substantive and technical skills needed to perform their jobs as well as possible.

III. STATE-BY-STATE SCHOOL FINANCE PROSPECTS FOR 1977

Alabama. The state superintendent of public instruction is conducting an equalization study with federal Section 842 funds that will investigate the adequacy and equity of the present education finance system including the state's tax structure.

Alaska. The Center for Northern Educational Research at the University of Alaska and the department of education currently are studying the education system of the state. They have conducted regional workshops to identify problems in the financing of education and have begun to examine further interregional cost differentials among school districts.

Arizona. The state has completed a study of declining enrollment issues and expects legislation to be developed from this study.

Arkansas. The governor has submitted a proposal to revamp the state's allocation system presently used to finance elementary and secondary schools. The change would eliminate the hold harmless clause, set a base year to freeze the foundation level and redistribute additional funds from high-wealth to low-wealth districts. The governor also has proposed that new sources of income be developed for financing schools. A court case, *Alma School District No. 30 v. Dupree,* was filed in January 1977 on fiscal neutrality grounds.

California. The California Supreme Court upheld the trial court's finding in the *Serrano* case that the system of school finance was in violation of the state constitution's equal protection clause; the state legislature has until 1980 to enact a funding structure that will eliminate the relationship between educational opportunity and local school district wealth. With federal 842 funds, research may be conducted on cost-of-education differences, alternative measures of school district wealth and education tax burdens.

Colorado. The 1973 reform officially expires in 1977 and must be renewed and/or changed. The 1973 reform guaranteed $31.92 per pupil per mill in 1976. The assessment of property is as much the focus of attention in Colorado as the particular structure of school financing. School finance has been placed as a top-priority item for the 1977 session by most of the newly elected legislative leadership.

Connecticut. The only state in the country now awaiting a state supreme court school finance decision is Connecticut. In December 1974 a district court in the *Horton* case found the flat-grant school aid system to be unconstitutional on equal protection grounds. The

legislature enacted a new school aid formula in early 1975 but funded it at a low level. If the state supreme court upholds the *Horton* decision, Connecticut's struggle may center more on the way in which the state raises revenues than on the way the new formula distributes the aid. The state department of education recently has contracted with the Education Policy Research Institute (EPRI) of ETS to conduct a school finance study and train department personnel in the use of EPRI school finance simulation model.

Delaware. It is possible that the new governor may propose major changes in the state's school finance system. The superintendent of public instruction together with economists at the University of Delaware are conducting an equalization study under federal Section 842 funds. Included in the study are the economic effects of income and the composition of the property tax base in the state school finance structure.

Florida. The department of education has proposed modifications to the present school finance system, including increasing the required local effort to 6.4 mills and increasing the foundation level to $817 per weighted full-time equivalent student. Proposed legislation would appropriate $30 million for the state compensatory education program. The state education agency is using Section 842 funds to study state education tax issues, education governance, the impacts of the state's current distribution program and updating of the Florida school finance simulation.

Georgia. In 1975 the Adequate Program of Education in Georgia, which included a district power-equalizing formula, was passed but funding was not provided. A court case, *Thomas v. Stewart,* alleges that the new school finance program, because of the absence of funding for the district power-equalizing sections, is in violation of the state constitution. It is anticipated that funding may be provided for the district power-equalizing section after the case goes to trial.

Hawaii. It is unlikely that the state's unique school finance system will receive special attention this year.

Idaho. A number of bills are expected to be introduced on different methods for distributing state education aid. Major reform measures do not have much legislative support at this time. The state department of education is currently working on a Section 842 proposal to fund a major school finance study. A court case may be filed by the Idaho Congress of Parents and Teachers against the school finance formula, using a litigation strategy showing that educational opportunity is less in low-wealth, low-spending school districts.

Illinois. It is not likely that Illinois will have any major school finance legislation proposed this year due to the shortage of funds available. There may be some legislation to change the funding laws

already on the books, but no details are available at this time. Studies of declining enrollments, cost-of-education differences, education tax burdens and pupil-weighting programs are being conducted with federal 842 funds.

Indiana. Several bills have been proposed that will increase funding for schools. The federal government has approved a study that will be funded with 842 funds. Completion date of the study will be in the fall of 1978.

Iowa. Legislation that would reorganize the 449 school districts will be examined. The department of public instruction is conducting a two-year study of the entire school financing system with federal 842 funds.

Kansas. On December 20, 1976, a new court case was filed by a number of school districts on the Kansas/Missouri border against the state of Kansas. The suit challenges the use of taxable income in the education formula, claiming double taxation (Kansas and Missouri) for persons living in Kansas but working in Missouri. The *Knowles v. Kansas* case, challenging the use of assessment-sales ratios to adjust local assessed values of property, is still on appeal. Study is being given to possible equalization formulas for many categorical programs.

Kentucky. The legislature will not meet in 1977. Two school finance studies will be conducted. The first, conducted by the department of education with 842 funding, will analyze the extent of equalization of the state's elementary and secondary financing structure. A second, being implemented through the governor's office, is a study of the finance and education program of the state's entire education structure, from kindergarten through higher education. This is one of the first education finance studies in the country to analyze elementary/secondary and postsecondary finance as a whole.

Louisiana. A study is being conducted by the Committee to Reform Education in Louisiana on teacher education and certification. Plans for the state board to develop a master plan for education were cancelled. A court case, *George Horne and Jefferson Parrish School Board v. Louisiana State Board of Elementary and Secondary Education*, challenging the state's equalization assessment practices, has been filed.

Maine. Legislation that will shift the method of financing school construction with the uniform property tax to a sliding-scale funding approach with reimbursement units on the basis of valuation per pupil will be proposed. The Legislative Council of the State of Maine on behalf of the Joint Select Committee on Property Tax Valuation was awarded a grant from the Ford Foundation to analyze the state's

current property tax assessment system and develop recommendations for changes in both the procedures and administrative structures for the assessment of real property. *Boothbay v. Longley*, a court case that challenged the School Finance Act of 1975, which imposed a statewide property tax with a recapture provision, is still pending. A decision is expected in late spring of 1977.

Maryland. Legislation will be introduced to revise the state aid program for special education. The proposals are based on a school finance study by the National Conference of State Legislatures. Major legislation restructuring the state's financing structure for elementary and secondary education also may be introduced.

Massachusetts. The board of education will be submitting a proposal to the legislature that the state adopt an equalization foundation formula to be phased in over four years. Included in this bill would be a save harmless provision and a weighting system for different programs. Proposed legislation in anticipation of municipal bankruptcy in Boston will also be introduced this session. One bill in this area will be to repeal fiscal autonomy for local school districts. The department of education, in conjunction with the department of finance, is conducting a comprehensive equalization study with federal 842 funds including the following topics: (1) historical trends of school finance in the state, (2) examination of the general state aid formula and its impacts, (3) declining enrollment, (4) special education with a specific focus on state aid for special education, (5) property tax burdens, (6) school transportation and (7) alternative ways to measure local fiscal ability. The governor's office also may initiate a school finance study.

Michigan. Legislation will be proposed to narrow the expenditure gap between low-millage and high-millage districts by placing a ceiling of 30 mills on high-millage districts. Also being submitted is a bill that would combine a weighted pupil program with the general aid formula. A legislative study investigating expenditure per pupil differences by geographical region and school district pupil size has just been completed.

Minnesota. With federal 842 monies various school finance policy issues will be analyzed, including additional policies related to declining school enrollments and school district consolidation.

Mississippi. A bill may be introduced requiring compulsory attendance in the schools. The state department of education is conducting a school finance equalization study funded with both federal 842 dollars and state money.

Missouri. The legislature will be considering the school finance reforms recommended by the Governor's Conference on Education. The recommended reforms include a two-tiered proposal: a basic

foundation program with a guaranteed tax base for those districts deciding to spend above the foundation level. The new program would require an additional $200 million in state aid, bringing total state aid to over $600 million. The new governor has $48.1 million additional state aid budgeted to fund a school finance reform. With federal funds from Section 842, further study of an income factor, pupil weightings for special education finance and refinement of district-by-district cost-of-education indices will be completed sometime in 1977.

Montana. New legislation is expected for increasing the state role in supplying transportation services. The state department of education will conduct an equalization study, funded with federal 842 dollars; issues for the study will be selected after the 1977 legislative session. One or two court cases are expected to be filed regarding the state's property assessment practices.

Nebraska. A bill is expected to be proposed to replace the property tax with a state-wide income tax to finance schools, but there may be insufficient legislative support for passage. The state department of education will be conducting an equalization study funded with federal 842 funds.

Nevada. The state department of education will be proposing to the state legislature a bill to increase the budget for public education.

New Hampshire. Major reform legislation is not expected. A Ford Foundation grant to the University of New Hampshire will help establish a school finance study center.

New Jersey. The 1975 school finance reform will be implemented with the funds from the new income tax. The results of the new program will be analyzed later in 1977 to determine whether it produced a thorough and efficient school system as required by the constitution.

New Mexico. Major legislation in school finance is not expected; the state tends to enact such changes during even-numbered years. A major study on capital outlay is being conducted and one anticipated result is a proposal to enact a more equitable formula for capital outlay. This study will suggest reform recommendations for the 1978 legislative session.

New York. Changes in school finance may be expected in 1977. The challenge in New York may be how to design an equitable mechanism for *reducing* state aid for public schools as well as for putting a rein on cost increases in public education at the local level. The governor's budget message includes both such elements for the 1977-78 school year. The trial in the *Levittown* court case, in which many poor suburban districts claim a state constitutional violation because of property wealth-related expenditure disparities, is coming to an end.

Five of the state's largest cities intervened in the *Levittown* case claiming the current education aid formula disadvantages urban areas. A lower court decision is expected in 1977.

North Carolina. Comprehensive school finance reform legislation will be developed for the 1979 legislative session as a result of a major school finance study to be conducted under federal 842 funds.

North Dakota. Two long-term studies are still in process, one on Indian education and the other on accountability. From the results of the latter study, legislation will be introduced to improve the education management information system. There will also be a proposal to increase the state appropriation to $185 million from $153 million. The state is also in the process of designing a major study to be financed with federal 842 funds.

Ohio. The state department of education has circulated a request for proposals to establish a school finance equalization study center with federal 842 funds. The Cincinnati court case has not yet been decided, but a decision is expected in 1977. The legislature may introduce legislation to add an income factor to the school aid formula.

Oklahoma. The state department of education will be implementing a comprehensive school finance study with federal 842 financing. One reform proposal being discussed would produce a full-state-assumption school-funding system financed by a 2 cent increase in the state's sales tax.

Oregon. The Legislative Revenue Office will be conducting an equalization study of the school finance program with federal 842 monies. The study has three specific objectives: (1) to determine alternative measures of wealth for school districts, (2) to review the student-weighting measurement for distributing school funds and (3) to improve the existing computer simulation model.

Pennsylvania. A proposal will be submitted to the legislature for the adoption of a guaranteed tax base formula, with the sparsity and density components of the present school aid formula being replaced with a tax overburden aid program. The new proposal would restructure the poverty measure now used in aid allocations by using current aid to families with dependent children (AFDC) figures combined with 1970 U.S. Census figures. The proposal also includes a pupil-weighting system for special education, thus including special education in the general funding formula instead of a categorical program.

Rhode Island. For the last two years, the board of regents has proposed statewide funding of public schools; it is anticipated that they will propose a similar bill this year. The department of education is conducting an on-going study of alternative methods of financing elementary and secondary education.

South Carolina. It is likely that legislation that was presented to the legislature last year on school finance reform will be presented again this year for passage. The bill would revise the foundation plan by increasing the foundation guarantee and adding a weighted-pupil system with a minimum required tax effort. The foundation plan would be phased in over a five-year period.

South Dakota. Federal Section 842 funds have been used to further school finance reform efforts. A task force has completed a major study of both school finance and state/local tax policy. The recommended school finance changes include the adoption of a foundation equalization aid program with a guaranteed tax base add-on and extra pupil weightings for special education, declining enrollments, small school size and sparsity. The governor has backed the proposed reform and the chances are good that the reform bill will be enacted.

Tennessee. The first major study of school finance in many years was conducted during 1976. The reform package suggested by that study includes a high-level foundation equalization aid program with pupil weightings for special education and the replacement of an old economic index with assessed valuation of property as the measure of school district wealth. The proposed reforms have strong legislative backing and an excellent chance of being passed.

Texas. An interim legislative committee has approved a plan to establish a single appraisal office for each county, replacing the several that currently certify widely varying assessed value figures for the same sets of property. The governor recently has proposed that the state assume 90 percent of the cost of the state's current foundation program. It is likely that important education finance changes will be debated by the 1977 legislature.

Utah. The following changes will be proposed for the school finance formula during the legislative session: (1) vocational education to be distributed by different pupil weightings, (2) money for reduction of class size to no more than 30 children per classroom to be included in the formula, (3) the amount for small schools to be changed from $425 to $650 per pupil and (4) the amount of state money for capital outlay to be increased significantly.

Vermont. The EPRI has finished its school finance study, and a school finance proposal for a new percentage equalizing formula has been introduced. The wealth measure for the new formula is a combination of an adjusted gross income ratio, nonresident property ownership and property valuation.

Virginia. Neither major new legislation nor school finance studies are expected.

Washington. The recent decision in the *Seattle School District #1*

of King County, Washington v. State of Washington court case will generate much activity on the school finance front in this case. The Division of Financial Services will be conducting a school finance equalization study funded under federal 842 funds.

West Virginia. A court case, *Pauley v. Kelly*, has been filed challenging the constitutionality of the current school finance structure on "thorough and efficient" grounds. The legislature has appropriated funds for a major study of school finance to include current operating expenses, transportation, capital construction and related tax issues. The Institute of Educational Finance in Gainsville, Florida, will be conducting the study for the legislature.

Wisconsin. An interim committee recommended that further study should be made of the role of income in Wisconsin school finance. The state collects income data by school district through the state income tax. The supreme court recently held the recapture clause unconstitutional.

Wyoming. No school finance reform legislation is expected. The state is in the process of developing a proposal for Section 842 funds to complete a study of the equalization of the state's current school finance structure.

APPENDIX

GLOSSARY OF SCHOOL FINANCE AND TAX TERMS

This glossary contains a number of tax, education and statistical terms that are used in school finance research and policy analysis. In order to make comparisons of tax and expenditure data among school districts, adjustments must be made in a number of measures. The purpose of these adjustments is to create a set of comparable numbers and a set of common terms. Standard procedures are used to make these adjustments and the glossary indicates how some of the adjustments are made.

ADA, ADM — ADA is an abbreviation for student average daily attendance and ADM is an abbreviation for student average daily membership. ADA and ADM are the official measures that most states use to represent the number of students in a school district for the purpose of calculating state aid. ADA is always less than ADM.

Assessment Ratios — The assessed valuation of property in most states is usually less than the market value of the property. In other words, owners are able to sell property for a price higher than the assessed valuation of that property. Although most states have a legal standard at which all property should be assessed, assessed valuations are usually below even the legal level and may vary widely among jurisdictions in a state. The actual assessment level or assessment ratio is determined by comparing actual assessed valuations to market values.

Assessed Valuation — The assessed valuation is the total value of property subject to the property tax in a school district. Usually, it is established by a local government officer and is only a percentage of the market value of the property.

Assessed Valuation, Adjusted — Because local assessing jurisdictions in a state usually have different actual assessment ratios, the reported assessed valuations need to be adjusted in order to compare them among school districts. The best way to make such adjustments is to convert the assessed valuations to what they would be if all counties assessed at 100 percent of market value and

then adjust them to the legal standard, for example, 33 1/3 percent. The mathematical way to make the adjustment is to divide the assessed valuation by the assessment ratio and multiply the result by 0.333. The result is called the adjusted assessed valuation. The following is an example:

Consider two school districts, A and B.

District A has an assessed valuation of $200,000.
District B has an assessed valuation of $250,000.

Focusing just on assessed valuations, District A would appear to be poorer in property wealth than District B. However, assume that the actual assessment ratio in District A is 20 percent while it is 25 percent in District B.

Assuming that the legal ratio is 33 1/3 percent, the computation of the adjusted assessed valuation for District A is as follows:

$$\text{adjusted assessed valuation} = \frac{\$200,000}{0.20} \times 0.333 = \$333,333$$

The computation of the adjusted assessed valuation for District B is:

$$\text{adjusted assessed valuation} = \frac{\$250,000}{0.25} \times 0.333 = \$333,333$$

Both school districts have the same adjusted assessed valuation. That is, both school districts effectively have the same total tax base, despite the differences in the reported assessed valuations.

Adjusted assessed valuations must be used to compare property wealth among school districts and should be the basis on which state equalization aid is calculated.

Assessed Valuation Per Pupil, Adjusted

The adjusted assessed valuation per pupil is the adjusted assessed valuation for a school district divided by the district's total ADA or ADM.

Categorical Programs

Categorical programs refer to state aid that is designated for specific programs. Examples

would be transportation aid, special education aid and aid for vocational education. Equalization formula aid is not an example of categorical aid. Formula funds provide general aid that can be used for any purpose.

Correlation

Correlation is a statistical term indicating the relationship between two variables. When two variables are said to be positively correlated, as one variable increases the other variable also tends to increase. When two variables are said to be negatively correlated, as one variable increases, the other variable tends to decrease.

Correlation Coefficient

The correlation coefficient is a number indicating the degree of relationship between two variables. Because of the way a correlation coefficient is calculated, it always will have a value between -1.0 and $+1.0$. When the correlation coefficient is around $+0.5$ to $+1.0$, the two variables have a positive relationship or are positively correlated — when one variable gets larger the other tends to get larger. When the correlation coefficient is around zero, the two variables do not appear to have any relationship. When the correlation coefficient is around -0.5 to -1.0, the variables have a negative relationship or are negatively correlated — as one gets larger the other tends to get smaller.

Current Operating Expenditures

Current operating expenditures include education expenditures for the daily operation of the school program such as expenditures for administration, instruction, attendance and health services, transportation, operation and maintenance of plant and fixed charges.

District Power Equalization

District power equalization (DPE) refers to a state equalization aid program that "equalizes" the ability of each school district to raise dollars for education. In a pure DPE program, the state guarantees to both property-poor and property-rich school districts the same dollar yield for the same property tax rate. In short, equal tax rates produce equal per pupil expenditures. In the property-poor school districts, the state makes up the difference between what is raised locally and what the state guarantees. In property-rich school dis-

tricts, excess funds may or may not be "recaptured" by the state and distributed to the property-poor districts. Most DPE state laws do not include recapture provisions. However, Montana, Utah and Wisconsin have both recapture mechanisms in their new school finance laws. DPE programs are given different names in many states including guaranteed tax base programs (GTB), guaranteed yield programs and percentage equalizing programs. DPE programs focus on the ability to support education and, thus, enhance the local fiscal role in education decision making. DPE would satisfy the "fiscal neutrality" standard without achieving "uniformity" of expenditures among school districts.

Elasticity of Tax Revenues

The elasticity of tax revenues refers to the responsiveness of the revenues from a tax to changes in various economic factors in the state or nation. In particular, policy makers may want to know whether tax revenues will increase more rapidly, as rapidly, or less rapidly than changes in personal income. The revenues from an elastic tax will increase by more than one percent for each one-percent change in personal income. Income taxes are usually elastic tax sources. In general, elastic tax sources have progressive patterns of incidence and inelastic tax sources have regressive patterns of incidence. Expenditure elasticity may be defined similarly.

Equalization Formula Aid

Equalization formula aid is financial assistance given by a higher-level government — the state — to a lower-level government — school districts — to equalize the fiscal situation of the lower-level government. Because school districts vary in their abilities to raise property tax dollars, equalization formula aid is allocated to make the ability to raise such local funds more nearly equal. In general, equalization formula aid increases as the per pupil property wealth of a school district decreases.

Expenditure Uniformity

Expenditure uniformity is an equity standard in school finance requiring equal expenditures per pupil or per weighted pupil for all students in the state. (See Fiscal Neutrality.)

Fiscal Neutrality Fiscal neutrality is a court-defined equity standard in school finance. It is a negative standard stating that current operating expenditures per pupil cannot be related to a school district's adjusted assessed valuation per pupil. It simply means that differences in expenditures per pupil cannot be related to local school district wealth. (See Expenditure Uniformity.)

Flat Grant Program A flat grant program simply allocates an equal sum of dollars to each public school pupil in the state. A flat grant is not an equalization aid program because it allocates the same dollars per pupil regardless of the property or income wealth of the local school districts. However, if *no local* dollars are raised for education and all school dollars come from the state, a flat-grant program becomes equivalent to full state assumption.

Foundation Program A foundation program is a state equalization aid program that typically guarantees a certain foundation level of expenditure for each student, together with a minimum tax rate that each school district must levy for education purposes. The difference between what a local school district raises at the minimum tax rate and the foundation expenditure is made up in state aid. In the past, foundation programs were referred to as minimum foundation programs and the foundation level of expenditure was quite low. Today, newly implemented foundation programs usually require an expenditure per pupil at or above the previous year's state average. Foundation programs focus on the per pupil expenditure level and thus enhance the state government's fiscal role in education.

Full State Assumption Full state assumption (FSA) is a school finance program in which the state pays for all education costs and sets equal per pupil expenditures in all school districts. FSA would satisfy the "uniformity" standard of equity. Only in Hawaii has the state government fully assumed most of the costs of public education.

Guaranteed Tax Base Program (GTB) See District Power Equalization.

Guaranteed Yield Program	See District Power Equalization.
Median Family Income	Median family income usually is that reported in the 1970 U.S. Census. It reflects income for 1969. If the income of all families in a school district were rank ordered, the median income would be the income of the family midway between the lowest- and the highest-income families.
Municipal Overburden	Municipal overburden is an argument that refers to the fiscal position of large cities. Municipal overburden includes the large burden of noneducation services that central cities must provide and that most other jurisdictions do not have to provide or at least do not have to provide in the same quantity. These noneducation services may include above-average welfare, health and hospitalization, public housing, police, fire and sanitation services. These high noneducation fiscal burdens mean that education must compete with many other functional areas for each local tax dollar raised, thus reducing the ability of large city school districts to raise education dollars. The fiscal squeeze caused by the service overburden, together with the concentration of the educationally disadvantaged and children in need of special education services in city schools, puts central city school districts at a fiscal disadvantage in supporting school services.
Percentage Equalizing Programs	See District Power Equalization.
Progressive Tax	A progressive tax is a tax that increases proportionately more than income as the income level of the taxpayer increases. Under a progressive tax a high-income taxpayer will pay a larger percent of his income toward this tax than a low-income taxpayer.
Property Tax Circuit Breaker Program	A property tax circuit breaker program is a tax relief program, usually financed by the state, that focuses property tax relief on particular households presumed to be overburdened by property taxes. That is, it is intended to reduce presumed regressivity of the property tax. A

typical circuit breaker attempts to limit the property tax burden to a percent of household income and applies only to residential property taxes. The percent usually rises as income rises in an attempt to make the overall burden progressive. Most states enacted circuit breaker programs initially just for senior citizens, but a few states have extended circuit breaker benefits to all low-income households, regardless of the age of the head of the household. The circuit breaker is based on actual or estimated taxes paid on residential property and generally takes the form of a credit on state income taxes.

Property Tax Incidence or Burden—Traditional and New Views

The traditional view of property tax incidence divided the tax into two components: that which fell on land and that which fell on improvements, i.e., structures. Property taxes on land were assumed to fall on landowners. The part on improvements was assumed to fall on homeowners in the case of owned homes, to be shifted forward to tenants in the case of rented residences and to be shifted forward to consumers in the case of taxes on business property. Nearly all empirical studies based on the traditional view found the incidence pattern to result in a regressive burden distribution, markedly regressive in the income ranges below $10,000. The new view of property tax incidence considers the tax to be, basically, a uniform tax on all property in the country. Such a tax is borne by owners of capital and, thus, the burden distribution pattern is progressive. Although the new view allows for modifications caused by admitted tax rate differentials across the country, adherents of the new view hold that even with the modifications the tax would exhibit a progressive pattern of incidence over much of the range of family incomes.

Proportional Tax

A proportional tax is a tax that consumes the same percent of family income at all income levels.

Pupil-Weighted Systems or Weighted-Pupil Programs

A pupil-weighted system is a state aid system in which pupils are given different weights based on the estimated or assumed costs of their education program; aid is allo-

cated on the basis of the total number of weighted students. Usually, the cost of the education program for grades 4-6 is considered the standard program and weighted 1.0. For states, such as Florida, that choose to invest more dollars in the early school years, pupils in grades K-3 are given a weight greater than 1.0, typically around 1.3. In other states, high school students are weighted about 1.25, although these secondary weightings slowly are being eliminated. The two major programmatic areas where numerous weightings have been used are special and vocational education. Florida includes weights for 15 different categories of special education and 6 different categories of vocational education. Weighted-pupil programs, therefore, recognize that it costs more to provide an education program for some students than for others and includes the extra costs via a higher weighting. State aid is then calculated and distributed on the basis of the total number of weighted students in each school district. Determining the appropriate weight is a difficult matter.

Regressive Tax

A regressive tax is a tax that increases proportionately less than income as the income level of the taxpayer increases. Under a regressive tax a low-income taxpayer will pay a larger percent of his income toward this tax than a high-income taxpayer.

Revenue Gap

A revenue gap exists when projected expenditures exceed projected tax revenues. Although revenue gaps usually are not allowed to exist in fact for current fiscal years, of importance are the projected values. If revenue gaps are projected, tax rate increases or expenditure cuts, both politically difficult, will be required. Revenue gaps usually occur when the elasticity of expenditures exceeds the elasticity of revenues. This often happens at the state and local level because state and local taxes are, in most instances, less elastic than expenditures. If states want to eliminate the occurrence of revenue gaps and the constant need to increase tax rates or decrease projected expenditure levels, attention must be given to ways to increase the elasticity of state tax systems, usually by increasing reliance on income taxes. (See Elasticity of Tax Revenues).

School District Tax Rate

School district tax rate is the term states use to indicate the local school property tax rate. The tax rate often is stated as the amount of property tax dollars to be paid for each $100 of assessed valuation or, if given in mills, the rate indicates how much is raised for each $1000 of assessed valuation. For example, a tax rate of $1.60 per hundred dollars of assessed valuation means that a taxpayer pays $1.60 for each $100 of his total assessed valuation; a tax rate of 16 mills indicates that $16 must be paid for each $1000 of assessed valuation.

State Aid for Current Operating Expenses

State aid for current operating expenses is the sum of the equalization formula aid and categorical aid for vocational education, special education, bilingual education, transportation and other categorical aid programs. (See Categorical Programs.)

Tax Burden (or sometimes Tax Incidence)

Tax burden typically refers to the percent of an individual's or family's income that is consumed by a tax or by a tax system. Usually, one wants to know whether a tax or tax system's burden is distributed in a progressive, proportional or regressive manner. In the United States, a tax system that is progressive overall seems to be the most acceptable to a majority of people. Tax burden analysis takes into account the extent of tax shifting.

Tax Incidence

See Tax Shifting and Tax Burden.

Tax Shifting or Tax Incidence

Tax shifting refers to the phenomenon wherein the party that must legally pay a tax, for example, a store owner, does not in fact bear the burden of the tax but shifts the tax to another party, for example, the consumer of item that is sold in the store. Taxes can be shifted either forward or backward. For example, a landlord might be able to shift his property taxes forward to tenants in the form of higher rents, and a business might be able to shift property or corporate income taxes backward to employees in the form of lower salaries. The ability to shift taxes depends on a variety of economic factors and there is great debate among economists over the extent to which some taxes are shifted. It is usually agreed, however, that individual income taxes

are not shifted and rest on the individual taxpayer. It also generally is agreed that sales taxes are shifted to the consumer. There is argument over the extent to which corporate income taxes are shifted to consumers in the form of higher prices or to employees in the form of lower wages versus falling on the stockholders in the form of lower dividends. There is also debate about who effectively pays the property tax. Tax incidence analysis examines how various taxes may or may not be shifted.

Education Commission of the States

The Education Commission of the States is a nonprofit organization formed by interstate compact in 1966. Forty-five states, Puerto Rico and the Virgin Islands are now members. Its goal is to further a working relationship among governors, state legislators and educators for the improvement of education. This report is an outcome of one of many Commission undertakings at all levels of education. The Commission offices are located at 300 Lincoln Tower, 1860 Lincoln Street, Denver, Colorado 80295.